

# 8619 Westwood Center Drive Vienna, Virginia 22182

September 29, 1995

Dear Stockholder,

You are cordially invited to attend the 1995 Annual Meeting of Stockholders of America Online, Inc. (the "Company") to be held at 10:00 a.m. on October 31, 1995 at the Sheraton Premiere, located at 8661 Leesburg Pike, Vienna, Virginia.

At the Annual Meeting, three persons will be elected to the Board of Directors. The Board of Directors recommends the election of the three nominees named in the Proxy Statement. The Company will also seek stockholder approval to amend the Company's 1992 Employee, Director and Consultant Stock Option Plan and to amend the Company's Restated Certificate of Incorporation. In addition, the Company will ask the stockholders to ratify the selection of Ernst & Young LLP as the Company's independent public accountants.

Whether you plan to attend the Annual Meeting or not, it is important that you promptly complete, sign, date and return the enclosed proxy card in accordance with the instructions set forth on the card. This will ensure your proper representation at the Annual Meeting.

Sincerely,

James V. Kimsey Chairman of the Board

YOUR VOTE IS IMPORTANT.
PLEASE REMEMBER TO RETURN YOUR PROXY PROMPTLY.

# AMERICA ONLINE, INC. NOTICE OF ANNUAL MEETING OF STOCKHOLDERS To be Held October 31, 1995

To the Stockholders of America Online, Inc.

NOTICE IS HEREBY GIVEN that the Annual Meeting of America Online, Inc., a Delaware corporation (the "Company"), will be held on October 31, 1995 at the Sheraton Premiere, located at 8661 Leesburg Pike, Vienna, Virginia at 10:00 a.m. for the following purposes:

- 1. To elect three members to the Board of Directors to serve for a term ending in 1998 and until their successors are duly elected and qualified.
- 2. To consider and act upon amendments to the Company's 1992 Employee, Director and Consultant Stock Option Plan.
- 3. To consider and act upon an amendment to the Company's Restated Certificate of Incorporation to increase the authorized number of shares of Common Stock.
- 4. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as the Company's independent public accountants for the fiscal year ending June 30, 1996.
- 5. To transact such other business as may be properly brought before the Annual Meeting and any adjournments thereof.

The Board of Directors has fixed the close of business on September 8, 1995 as the record date for the determination of Stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournments thereof. A list of such Stockholders will be available for inspection at the Company's headquarters during ordinary business hours for the ten-day period prior to the Annual Meeting.

All Stockholders are cordially invited to attend the Annual Meeting. However, to ensure your representation you are requested to complete, sign, date and return the enclosed proxy as soon as possible in accordance with the instructions on the proxy card. A return addressed envelope is enclosed for your convenience.

BY ORDER OF THE BOARD OF DIRECTORS

Elenn. Kusn

Ellen M. Kirsh Secretary

Vienna, Virginia September 29, 1995

# America Online, Inc. 8619 Westwood Center Drive Vienna, Virginia 22182 (703) 448-8700

# PROXY STATEMENT

### GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of America Online, Inc. (the "Company"), a Delaware corporation, of proxies, in the accompanying form, to be used at the Annual Meeting of Stockholders to be held at the Sheraton Premiere, located at 8661 Leesburg Pike, Vienna, Virginia on October 31, 1995 at 10:00 a.m., and any adjournments thereof (the "Meeting").

Where the Stockholder specifies a choice on the proxy as to how his or her shares are to be voted on a particular matter, the shares will be voted accordingly. If no choice is specified, the shares will be voted FOR the election of the three nominees for Director named herein, FOR the proposal to increase by 8,000,000 shares the aggregate number of shares for which stock options may be granted under the Company's 1992 Employee, Director and Consultant Stock Option Plan, FOR the proposal to amend the Restated Articles of Incorporation of the Company to increase the authorized shares of Common Stock from 100,000,000 to 300,000,000 and FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent public accountants for the fiscal year ending June 30, 1996. A proxy may be revoked by written instrument delivered to the Company at any time before the proxy is voted. Any Stockholder who has executed a proxy but is present at the Meeting, and who wishes to vote in person, may do so by revoking his or her proxy as described in the preceding sentence. Shares represented by valid proxies in the form enclosed, received in time for use at the Meeting and not revoked at or prior to the Meeting, will be voted at the Meeting. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of the Company's common stock, par value \$.01 per share ("Common Stock"), is necessary to constitute a quorum at the Meeting. Under Delaware law, with respect to the tabulation of proxies, abstentions are treated as present for purposes of constituting a quorum, while non-votes are treated as not being present.

The close of business on September 8, 1995 has been fixed as the record date for determining the Stockholders entitled to notice of and to vote at the Meeting. As of that date, the Company had 37,845,827 shares of Common Stock outstanding and entitled to vote. Holders of Common Stock are entitled to one vote per share on all matters to be voted on by Stockholders. This Proxy Statement and the accompanying proxy are being mailed on or about September 29, 1995 to all Stockholders entitled to notice of and to vote at the Meeting.

The cost of soliciting proxies, including expenses in connection with preparing and mailing this Proxy Statement, will be borne by the Company. In addition, the Company will reimburse brokerage firms and other persons representing beneficial owners of Common Stock of the Company for their expenses in forwarding proxy material to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone, telegram, telex and personal solicitation by independent solicitors, or the directors, officers or employees of the Company. No additional compensation will be paid to directors, officers or employees for such solicitation.

The Annual Report to Stockholders for the fiscal year ended June 30, 1995 is being mailed to the Stockholders with this Proxy Statement, but does not constitute a part hereof.

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# SHARE OWNERSHIP

The following table sets forth certain information as of August 15, 1995, concerning the ownership of Common Stock by (i) each stockholder of the Company known by the Company to be the beneficial owner of more than 5% of its outstanding shares of Common Stock, (ii) each current member of the Board of Directors of the Company, (iii) each executive officer of the Company named in the Summary Compensation Table appearing under Executive Compensation and (iv) all current directors and executive officers of the Company as a group.

Name and Address**	Owned(1) Number	
		Percent
Putnam Investments, Inc.(2)	e e e e e e e e e e e e e e e e e e e	ed Art
Capital Research and Management Company(2)	2,740,000	,
Investors Research Corporation(2)	Andrew Construction Andrew Grand Construction	7.1%
FMR Corporation(2)	2,604,800	6.9%
Tribune Company(3)	raviganta diperil Arabi mela eliperil	(Augusta) Takan salah
Apple Computer, Inc.(4)	2,000,000	5.0%
Stephen M. Case(5)	1,050,750	.s 7.5.65
James V. Kimsey(6)	679,616	1.8%
Lennert J. Leader(7)	256,802	*
William N. Melton(8)		*
Michael M. Connors(9)	151,280	*
Alexander M. Haig, Jr.(10)	126,000	*
Theodore J. Leonsis(11)	121,566	*
John L. Davies(12)	116,269	* *
Frank J. Caufield(10)	84,000	*******
James G. Andress(13)	30,400	la estra 🙀 - La estra e
Scott C. Smith(14)	8,000	*
Thomas J. Middelhoff(15)	<b>0</b>	***
(25 persons)(16)	3,729,547	9.1%

<sup>\*</sup> Represents beneficial ownership of less than 1% of the Company's outstanding shares of Common Stock.

<sup>\*\*</sup> Addresses are given for beneficial owners of more than 5% of the outstanding Common Stock only. All other addresses are c/o America Online, Inc., 8619 Westwood Center Drive, Vienna, Virginia 22182.

- (1) The number of shares of Common Stock issued and outstanding on August 15, 1995 was 37,765,991. The calculation of percentages is based upon the number of shares of Common Stock issued and outstanding on such date, plus shares of Common Stock subject to options held by the respective persons on August 15, 1995 and exercisable within 60 days thereafter. The persons and entities named in the table have sole voting power with respect to all shares shown as beneficially owned by them, except as noted below. Attached to each share of Common Stock is a Preferred Share Purchase Right to acquire one one-hundredth of a share of the Company's Series A Junior Participating Preferred Stock, par value \$0.01 per share, which Preferred Share Purchase Rights are not presently exercisable.
  - (2) Based solely upon information filed with the Securities and Exchange Commission.
- (3) Certain of the shares owned by Tribune Company were acquired upon conversion of shares of preferred stock acquired in a private financing between the Company and Tribune Company in September 1991, and Tribune Company has the right to require registration of such shares under the Securities Act of 1933, as amended, for sale to the public under certain circumstances. Mr. Smith is a Director and is President and Publisher, Sun-Sentinel Company, an affiliate of Tribune Company. Mr. Smith disclaims beneficial ownership of the shares owned by Tribune Company.
  - (4) Represents shares issuable upon the exercise of a warrant to purchase Common Stock.
  - (5) Includes 943,512 shares issuable upon the exercise of options to purchase Common Stock.
  - (6) Includes 607,712 shares issuable upon the exercise of options to purchase Common Stock.
  - (7) Includes 206,792 shares issuable upon the exercise of options to purchase Common Stock.
  - (8) Includes 40,000 shares issuable upon the exercise of options to purchase Common Stock.
  - (9) Includes 134,648 shares issuable upon the exercise of options to purchase Common Stock.
  - (10) Represents shares issuable upon the exercise of options to purchase Common Stock.
  - (11) Includes 41,217 shares issuable upon the exercise of options to purchase Common Stock.
  - (12) Includes 115,000 shares issuable upon the exercise of options to purchase Common Stock.
  - (13) Includes 30,000 shares issuable upon the exercise of options to purchase Common Stock.
- (14) Represents shares issuable upon the exercise of options to purchase Common Stock. Mr. Smith is a Director and is President and Publisher, Sun-Sentinel Company, an affiliate of Tribune Company. See note (3) above.
- (15) Mr. Middelhoff is a Director and is a member of the Executive Board of Bertelsmann AG. Mr. Middelhoff disclaims beneficial ownership of 1,804,640 shares of Common Stock owned by Bertelsmann AG.
  - (16) Includes 3,000,017 shares issuable upon the exercise of options to purchase Common Stock.

# **MANAGEMENT**

#### **Directors**

The Company's Restated Certificate of Incorporation and Restated By-Laws provide for a classified Board of Directors. The Board of Directors currently consists of eight members, classified into three classes as follows: James G. Andress and Frank J. Caufield constitute a class with a term which expires at the upcoming Meeting (the "Class II Directors"); Stephen M. Case, William N. Melton and Thomas J. Middelhoff constitute a class with a term ending in 1996 (the "Class III Directors"); and James V. Kimsey, Alexander M. Haig, Jr. and Scott C. Smith constitute a class with a term ending in 1997 (the "Class I Directors"). At each annual meeting of stockholders, directors are elected for a full term of three years to succeed those directors whose terms are expiring.

The names of the Company's Directors and certain information about them are set forth below:

Name	Age	Position with the Company
James V. Kimsey	55	Chairman of the Board
Stephen M. Case	36	President, Chief Executive Officer and Director
James G. Andress	55	Director
Frank J. Caufield	54	Director
Alexander M. Haig, Jr	69	Director
William N. Melton	52	Director
Thomas J. Middelhoff	42	Lucecia
Scott C. Smith	44	Director

Mr. Kimsey, a co-founder of the Company, has served as Chairman of the Board of Directors since 1985. He also served as President of the Company from 1985 to January 1991 and as Chief Executive Officer from 1985 to April 1993. Mr. Kimsey is a director of Globalink, Inc., a translation software company, and Capital One Financial Corp., a financing company. Over the past 20 years, Mr. Kimsey has founded and served on the boards of a number of businesses in the Washington, D.C. area.

Mr. Kimsey has announced his intention to step down as the Company's Chairman of the Board of Directors at the next annual meeting of stockholders, and it is expected that Mr. Case will succeed Mr. Kimsey as Chairman. It is anticipated that Mr. Kimsey will continue to serve as a Director of the Company and as Chairman Emeritus.

Mr. Case, a co-founder of the Company, has been President of the Company since January 1991, Chief Executive Officer of the Company since April 1993 and a Director since September 1992. Previously, he served as Executive Vice President from September 1987 to January 1991 and Vice President, Marketing, from 1985 to September 1987. Before joining the Company, he held marketing positions at PepsiCo. Inc. and Procter & Gamble.

Mr. Andress has been a Director of the Company since September 1992. He has held the positions of Chief Executive Officer and Vice President of Information Resources, Inc., an information services company, since November 1989. From June 1988 to November 1989, he served as Chairman, Health Care Products and Services, of SmithKline Beecham, Pty. Ltd. Prior to that time, he served as President and Chief Operating Officer of Sterling Drug, Inc. Mr. Andress is a director of Genelabs Technologies, Inc., Genetics Institute, Inc., The Liposome Co., Inc., Neorx Corp., Optioncare, Inc. and Sepracor, Inc., biotechnology companies, Walsh International, a medical records company, Allstate Insurance, Inc., an insurance company, and Information Resources, Inc., a technology company.

Mr. Caufield has been a Director of the Company since 1991. He has held the position of general partner of Kleiner, Perkins, Caufield & Byers, a venture capital partnership, since 1978. He is a director of Quickturn Design Systems, an emulation technology company.

General Haig has been a Director of the Company since 1989. He has held the position of Chairman and President of Worldwide Associates, Inc., an international consulting company, since 1984 and is Co-Chairman of US-CIS Ventures. General Haig is the former U.S. Secretary of State, former Vice Chief of Staff, Army, former White House Chief of Staff and former Supreme Allied Commander, Europe. General Haig has been awarded many military decorations, including the Distinguished Service Cross. A retired full General, U.S. Army, he also served as the President and Chief Operating Officer of United Technologies Corp., and is currently a director of Interneuron Pharmaceuticals, Inc. and MGM Grand, Inc.

Mr. Melton has been a Director of the Company since September 1992. From 1980 to 1990, he held positions at VeriFone, Inc., a transaction automation devices company, including President and Chief Executive Officer from 1980 to 1986 and Chairman of the Board from 1986 to 1992. Since 1992, Mr. Melton has continued to serve as a director of VeriFone, Inc. and is a director of Transaction Network Services, Inc., a transaction services company. Mr. Melton is also President and CEO of CyberCash, Inc.

Mr. Middelhoff has been a Director of the Company since May 1995. He has been a member of the Executive Board of Bertelsmann AG, one of the world's largest media companies, since July 1994. From July 1990 through July 1994, he served as Chairman of the Management Board of Mohndruck Graphische Betriebe Gmbh and member of the Board of Directors of Bertelsmann Industries, Gutersloh. Prior to that, he served as Managing Director of Mohndruck Graphische Betriebe Gmbh. Mr. Middelhoff has been nominated as a Director of the Company pursuant to the terms of a Stock Purchase Agreement with Bertelsmann AG.

Mr. Smith has been a Director of the Company since 1991. He has held the position of President and Publisher, Sun-Sentinel Company since September 1993. Previously, Mr. Smith was Senior Vice President, Development, of Tribune Company from November 1991 to August 1993. Previously he held positions at Tribune Company of Senior Vice President and Chief Financial Officer from 1989 to 1991, and Vice President, Finance, from 1985 to 1989.

## Committees of the Board and Meetings

Meeting Attendance. During the fiscal year ended June 30, 1995, there were nine meetings of the Board of Directors, and the various Committees of the Board of Directors met a total of eight times. No Director attended fewer than 75% of the total number of meetings of the Board and of Committees of the Board on which he served in the period of fiscal 1995. In addition, from time to time, the members of the Board of Directors and its Committees acted by unanimous written consent pursuant to Delaware law.

Audit Committee. The Audit Committee, which met twice in fiscal 1995, has three members, Mr. Smith (Chairman) and Messrs. Melton and Caufield. The Audit Committee reviews the engagement of the Company's independent accountants, and reviews annual financial statements, considers matters relating to accounting policy and internal controls and reviews the scope of annual audits.

Compensation Committee. The Compensation Committee, which met five times during fiscal 1995, has five members, General Haig (Chairman) and Messrs. Andress, Caufield, Melton and Smith. The Compensation Committee (i) reviews, approves and makes recommendations on the Company's compensation policies, practices and procedures to ensure that legal and fiduciary responsibilities of the Board of Directors are carried out and that such policies, practices and procedures contribute to the success of the Company and (ii) administers the Company's 1992 Employee, Director and Consultant Stock Option Plan, the 1987 Stock Incentive Plan, the 1985 Incentive Stock Option Plan (Restatement) and the Employee Stock Purchase Plan.

Nominating Committee. The Nominating Committee, which met once during fiscal 1995, has four members, Messrs. Haig, Melton, Middelhoff and Smith. The Nominating Committee's role, following consultation with all other members of the Board of Directors, is to make recommendations to the full Board as to the size and composition of the Board and to make recommendations as to particular nominees; it does not consider nominees recommended by security-holders.

# **Compensation of Directors**

The Company's policy is to pay no compensation to members of the Board for attendance at Board meetings or Committee meetings.

Directors are eligible to participate in the Company's 1992 Employee, Director and Consultant Stock Option Plan (the "1992 Plan"). The 1992 Plan provides for an annual grant to each non-employee Director of an option, which vests following one year of service after the date of grant, to purchase 10,000 shares of Common Stock at an exercise price equal to the fair market value of the Common Stock on the grant date.

#### **Executive Officers**

The names of, and certain information regarding, executive officers of the Company are set forth below. The executive officers serve at the pleasure of the Board of Directors.

Name	Age	Position with the Company
James V. Kimsey	55	Chairman of the Board of Directors
Stephen M. Case	36	President; Chief Executive Officer and Director
Lennert J. Leader	40	Senior Vice President; Chief Financial Officer; Treasurer and Chief Accounting Officer
David Cole	42	Senior Vice President; President of AOL Enterprises
Michael M. Connors	53	Senior Vice President; President of AOL Technologies
John L. Davies	45	Senior Vice President; President of AOL International
Miles Gilburne	44	Senior Vice President, Corporate Development
Theodore Leonsis	39	Senior Vice President; President of AOL Services Company
Marc S. Seriff	47	Senior Vice President, Product Research
Janice Brandt	44	Vice President; Senior Vice President of AOL Services Company
Richard Hanlon	47	Vice President, Investor Relations
Ellen M. Kirsh	47	Vice President, General Counsel and Secretary
Matthew Korn	36	Vice President, Operations
Barry Schuler	42	Vice President; President of AOL Productions
Mark Stavish	40	Vice President, Human Resources and Facilities
Jean N. Villanueva	35	Vice President, Corporate Communications
Mark Walsh	41	Vice President, Enterprise Solutions
Audrey Y. Weil	35	Vice President; Senior Vice President of AOL Services Company

Mr. Kimsey, a co-founder of the Company, has served as Chairman of the Board of Directors since 1985. He also served as President of the Company from 1985 to January 1991 and as Chief Executive Officer from 1985 to April 1993. Mr. Kimsey is a director of Globalink, Inc., a translation software company, and Capital One Financial Corp., a financing company. Over the past 20 years, Mr. Kimsey has founded and served on the boards of a number of businesses in the Washington, D.C. area.

Mr. Case, a co-founder of the Company, has been President of the Company since January 1991, Chief Executive Officer of the Company since April 1993 and a Director since September 1992. Previously, he served as Executive Vice President from September 1987 to January 1991 and Vice President, Marketing, from 1985 to September 1987. Before joining the Company, he held marketing positions at PepsiCo. Inc. and Procter & Gamble.

Mr. Leader has been a Senior Vice President, the Chief Financial Officer and Treasurer since joining the Company in September 1989. He served as Secretary from 1989 through October 1993 and became Chief Accounting Officer in October 1993. Prior to joining the Company, Mr. Leader was Vice President, Finance of LEGENT Corporation, a computer software and services company, from March 1989 to September 1989, and Chief Financial Officer of Morino, Inc., a computer software and services company which merged into LEGENT Corporation, from 1986 to March 1989. Mr. Leader is a Certified Public Accountant and was an audit manager at Price Waterhouse prior to joining Morino, Inc. in 1984.

Mr. Cole joined the Company as Senior Vice President and President of AOL Enterprises in November 1994. Mr. Cole had previously served as Chairman, President and CEO of Navisoft, a software company acquired by the Company in November 1994. Mr. Cole serves as a partner in the Cole-Gilburne Fund, Catalyst II and Pan Pacific Ventures (all venture capital funds). He is also a Director of Shiva Corporation, a computer networking company. Previously, he was President of Ziff Communications, and Chairman and CEO of Ashton-Tate, a software company.

Mr. Connors has served as Senior Vice President and President of AOL Technologies, an operating division of the Company, since September 1994. Mr. Connors was Senior Vice President, Technology and Operations, since joining the Company in October 1992 until September 1994. From 1966 to 1992, Mr. Connors held various management positions with International Business Machines, most recently including Director, Computing Systems, IBM Research and Director, Information Systems.

Mr. Davies has served as Senior Vice President and President of AOL International, an operating division of the Company, since September 1994. Mr. Davies was Senior Vice President, America Online Service, since joining the Company in June 1993 until September 1994. From June 1992 to June 1993, Mr. Davies was President of J. L. Davies & Associates, a consulting firm. Previously, Mr. Davies held various management positions with Citicorp and its affiliates, most recently as Managing Director, Citibank Savings, London, England from May 1989 to June 1992 and as Vice President, Marketing and Strategic Planning, Citicorp from May 1987 to May 1989. Prior to that Mr. Davies was Chief Executive of RCA's European record business and held various marketing management positions with General Electric's consumer electronic business.

Mr. Gilburne joined the Company as Senior Vice President, Corporate Development, in February 1995. Prior to joining the Company, Mr. Gilburne was the founding attorney of the Silicon Valley office of the law firm of Weil, Gotshal & Manges. Mr. Gilburne is also a Principal of the Cole-Gilburne Fund, a venture capital fund.

Mr. Leonsis joined the Company as President of the Company's America Online Services Company in September 1994. For at least the prior five years, Mr. Leonsis was President of Redgate Communications Corporation, which was acquired by the Company in May 1994.

Mr. Seriff, a co-founder of the Company, has served as Senior Vice President, Product Research, since May 1991. Previously, he served as Senior Vice President, Special Projects, from May 1989 to May 1991 and as Senior Vice President, Operations and Engineering, from May 1985 to May 1989.

Ms. Brandt has served as Vice President and Senior Vice President of AOL Services Company, an operating division of the Company, since September 1994. Ms. Brandt was Vice President, Marketing, since joining the Company in April 1993 until September 1994. From November 1988 to April 1993, Ms. Brandt was Vice President of Advertising for Newfield Publications Publishing (formerly Field Publications). Previously, she was the founder and President of Brandt Direct Marketing and President and Chief Executive Officer of RPA Direct Agency, a marketing company.

Mr. Hanlon joined the Company as Vice President, Investor Relations, in February 1995. Before joining the Company, Mr. Hanlon was President and CEO of Hanlon & Co., a privately-held investor relations firm, from March 1993 through February 1995. Prior to that, Mr. Hanlon served as Vice President, Corporate Communications, and Secretary of LEGENT Corporation, a computer software and services company, from February 1988 to March 1993.

Ms. Kirsh joined the Company as Vice President, General Counsel and Secretary in October 1993. For more than five years prior to that she served as Senior Vice President, General Counsel and Secretary of Systems Center, Inc., an international software company that licensed systems and network management products.

Mr. Korn has been Vice President, Operations of the Company since October 1994. Prior to that he served as Director of Operations from March 1993. Before joining the Company, Mr. Korn worked at IBM for thirteen years, most recently as Senior Manager of Networking Systems at IBM Research.

Mr. Schuler joined the Company as Vice President and President of AOL Productions in May 1995. For the prior five years, Mr. Schuler was President and CEO of Medior, which was acquired by the Company in May 1995.

Mr. Stavish joined the Company as Vice President, Human Resources and Facilities, in February 1995. Prior to joining the Company, Mr. Stavish worked for eight years at PepsiCo. Inc. as the Director, Human Resources, of their Pittsburgh-based business unit.

Ms. Villanueva has been Vice President, Corporate Communications, since April 1993. She previously held the position of Vice President, Marketing, from August 1989 to April 1993 and Director of Marketing from October 1988 to August 1989. Before joining the Company, she held the position of Manager, Marketing Planning and Development, at General Electric Information Services, and Manager, Joint Marketing, with Source Telecomputing Corporation.

Mr. Walsh joined the Company as Senior Vice President and General Manager of the branded Internet Services in March 1995. Mr. Walsh was President of GEnie, General Electric Information Service's online service. Previously Mr. Walsh was President of Information Kinetics, Inc. ("IKI"), an interactive information and database publishing company focusing on the employment marketplace. Prior to IKI, Mr. Walsh was Vice President and General Manager of Interactive Services for CUC International, Inc., a direct marketing company.

Ms. Weil has served as Vice President and Senior Vice President of AOL Services Company, an operating division of the Company, since September 1994. Ms. Weil was Vice President, Corporate Development, from March 1993 until September 1994. From January 1991 to March 1993, she served as Vice President, Product Development, and from August 1989 to January 1991, as Vice President, Business Development. Previously she served in various senior management positions in Product Management and Business Development since joining the Company in April 1988. From October 1986 to February 1988, she served in marketing and product management positions with Ralston Purina.

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### **EXECUTIVE COMPENSATION**

## **Summary Compensation Table**

The following Summary Compensation Table sets forth summary information as to compensation received by the Company's Chief Executive Officer and each of the four other most highly compensated persons who were serving as executive officers of the Company as of June 30, 1995 (collectively, the "named executive officers") for services rendered to the Company in all capacities during the three fiscal years ended June 30, 1995.

And the second s	Annual Compensation			mpensation	Long-Term Compensation		
Name and Principal Position	Fiscal Year	Salary	Bor	ius	Other Compensation (1)	Awards of Options (#)	All Other Compensation(2)
Stephen M. Case	1995 1994 1993	\$200,000 161,375 148,500	\$	0	\$ 0 0 0	500,000 0 800,000	\$ 4,462 1,326 343
Michael M. Connors Sr. V.P.; President of AOL Technologies	1995 1994 1993	\$195,000 180,000 132,596	\$	0 0 0	\$22,675 0 0	60,000 0 300,000	\$ 17,207 9,335 35,768
John L. Davies	1995 1994 1993	\$195,000 172,027 N/A	\$	0 0 0	\$ 0 0	100,000 0 220,000	\$ 4,594 47,713 N/A
Lennert J. Leader Sr. V.P.; Finance and Administration; Chief Financial Officer; and Treasurer	1995 1994 1993	\$188,333 148,438 137,500	<b>\$</b>	0 0 0		200,000 0 200,000	\$ 4,163 3,266 1,034
Theodore J. Leonsis	1995 1994 1993	\$179,025 N/A N/A		0 /A /A	\$ 9,757 N/A N/A	200,000 N/A N/A	\$100,169 N/A N/A

<sup>(1)</sup> Other Annual Compensation amounts represent tax reimbursement payments.

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<sup>(2)</sup> All Other Compensation for Mr. Case, Mr. Connors, Mr. Davies, Mr. Leader and Mr. Leonsis during fiscal 1995 includes the dollar value of premiums paid by the Company with respect to term life insurance for their benefit in the amounts of \$462, \$1,958, \$694, \$396 and \$21,719, respectively. All Other Compensation for Mr. Case, Mr. Connors, Mr. Davies, Mr. Leader and Mr. Leonsis during fiscal 1995 also includes \$4,000, \$3,900, \$3,900, \$3,767 and \$3,450, respectively, of matching contributions made under the Company's 401(k) Plan, In addition, All Other Compensation for Mr. Connors and Mr. Leonsis during fiscal 1995 also includes \$11,349 and \$75,000, respectively, in relocation expense payments.

# Option Grants in Last Fiscal Year Table

The following table provides information regarding the grant of options to each of the named executive officers.

The suggest of the State of State of the State of State o		Individual (			Assume	izable Value at I Annual
	Number of Shares Covered by	% of Total Options Granted to	Exercise	Program C	Appre	tock Price ciation n Term(2)
Name (8)	Option Grants (1)	Employees in Fiscal Year	Price (\$/Share)	Expiration <u>Date</u>	<u>5%</u>	<u>10%</u>
Stephen M. Case	500,000	4.1%	\$13.90	7/29/04		\$11,084,680
Michael M. Connors	60,000	0.5%	\$13.90	7/29/04	\$ 525,114	\$ 1,330,162
John L. Davies	100,000	0.8%	\$13.90	7/29/04	\$ 875,190	\$ 2,216,936
Lennert J. Leader	200,000	1.7%	\$13.90	7/29/04	\$1,750,379	\$ 4,433,872
Theodore J. Leonsis	160,000 40,000	1.3% 0.3%	\$15.25 27.25		\$1,534,503 685,495	\$ 3,888,732 1,737,179

- (1) Options are non-qualified stock options, become exercisable over a four-year period and generally terminate three months following termination of the executive officer's employment with the Company or the expiration date, whichever occurs earlier. The exercise price of each option was determined to be equal to the fair market value per share of the Common Stock on the grant date.
- (2) Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on assumed rates of stock price appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise of the option or the sale of the underlying shares. The actual gains, if any, on the exercise of stock options will depend on the future performance of the Common Stock, the option holder's continued employment throughout the option period, and the date on which the options are exercised.

# Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Values

The following table provides information regarding the aggregate exercises of options by each of the named executive officers. In addition, this table includes the number of shares covered by both exercisable and unexercisable stock options as of June 30, 1995, and the values of "in-the-money" options, which values represent the positive spread between the exercise price of any such option and the fiscal year-end value of America Online Common Stock.

The second of th	Shares	efficient and a few	Unexerci	sed Options	Value of the In-The-Mor at Fiscal Ye	ey Options ear-End (1)
here? washing Name has been a said	on Exercise	Realized	Exercisable	Unexercisable	<u>Exercisable</u>	Unexercisable
Stephen M. Case	医肾髓 医高压虫	医脓性皮肤 的复数的 缺陷	818,512	918,000	\$33,475,044	
Michael M. Connors	,	\$1,254,026	64,648	210,000		\$ 7,794,328
John L. Davies		\$ 658,540	90,000	210,000		\$ 6,874,300
Lennert J. Leader		\$2,317,997	156,792	312,000	\$ 6,341,293	
Theodore J. Leonsis		N/A	41,217	278,515		\$ 8,161,040

<sup>(1)</sup> The value of unexercised in-the-money options at fiscal year-end assumes a fair market value for the Company's Common Stock of \$44.00, the closing market price per share of the Company's Common Stock as reported in the Nasdaq National Market on June 30, 1995.

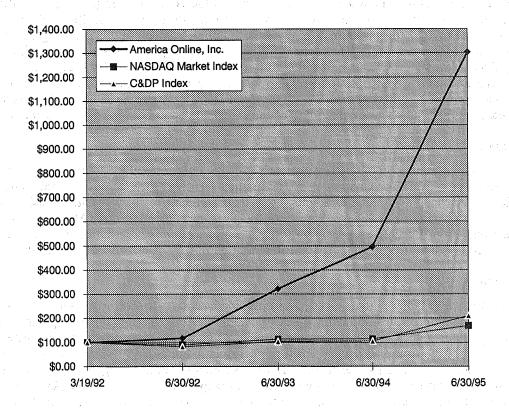
# Employment Contracts, Termination of Employment and Change of Control Arrangements

The Company has four stock option plans (i) a 1992 Employee, Director and Consultant Stock Option Plan (the "1992 Plan"); (ii) a 1987 Stock Incentive Plan (the "Non-Qualified Plan"); (iii) a 1985 Incentive Stock Option Plan (Restatement) (the "ISO Plan"); and (iv) an Employee Stock Purchase Plan (the "ESPP," and, together with the 1992 Plan, the Non-Qualified Plan, and the ISO Plan, the "Plans").

The outstanding option agreements issued under the Plans provide for acceleration of the vesting of the options granted upon or in connection with a change in control (as defined in such option agreements) of the Company, such that such options become exercisable either (i) immediately, (ii) one year following a change in control, subject to certain conditions, or (iii) upon the occurrence of a specified event following a change in control, such as (a) the named executive officer failing to be vested with power and authority analogous to the named executive officer's title and/or office prior to the change in control, (b) the named executive officer's loss of any significant duties attending such office, (c) a reduction in the named executive officer's base compensation or (d) termination of the named executive officer's employment without cause.

# **Performance Graph**

The following graph compares the annual change in the Company's cumulative total shareholder return on its Common Stock during a period commencing on March 19, 1992 (the date of the initial public offering of the Common Stock) and ending on June 30, 1995 (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment and (B) the difference between the Company's share price at the end and the beginning of the measurement period; by (ii) the share price at the beginning of the measurement period) with the cumulative total return of the CRSP Total Return Index for the Nasdaq National Market (U.S. Companies) (the "Nasdaq Market Index") and the CRSP Total Return Index for Nasdaq Computer and Data Processing Services Stocks (the "C&DP Index") during such period, assuming a \$100 investment on March 19, 1992. It should be noted that the Company has not paid any dividends on the Common Stock, and no dividends are included in the representation of the Company's performance. The stock price performance on the graph below is not necessarily indicative of future price performance.



	3/19/92	6/30/92	6/30/93	6/30/94	6/30/95
America Online, Inc.	\$100.00	\$117.39	\$321.74	\$495.65	\$1,303.70
NASDAQ Market Index	\$100.00	\$89.75	\$112.86	\$113.99	\$169.31
C&DP Index	\$100.00	\$81.73	\$104.14	\$104.30	\$209.30

# REPORT OF COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee comprises five non-employee, independent members of the Board of Directors. It is the responsibility of the Compensation Committee to review, recommend and approve changes to the Company's overall compensation policies and benefits programs, to administer the Company's stock option plans, including approving stock option grants to executive officers and certain other stock option grants, and to otherwise ensure that the Company's compensation philosophy is properly implemented.

# **Compensation Philosophy**

The compensation philosophy of the Company is to (i) provide a competitive total compensation package that enables the Company to attract and retain key executives needed to accomplish the Company's goals and (ii) directly link compensation to sustained improvements in Company performance and increases in stockholder value as measured by the Company's stock price.

# **Compensation Program**

The principal components of the compensation program include base salary and long-term, equity-based incentives in the form of stock options. Equity-based plans have been emphasized in the past to motivate executive behavior over the long term and have been effective in building stockholder value and attracting key executives. The Company traditionally has not paid cash bonuses to its executives, consistent with its philosophy to link compensation to the Company's sustained performance.

The Compensation Committee recently reexamined the compensation program to address the appropriate level for equity-based incentives. In consultation with outside consultants, the Compensation Committee has revised the program to reduce the number of stock options to be granted at various employment levels in the future. The Committee believes this adjustment is consistent with the Company's significant recent growth in personnel and stock value. The Committee expects to continue to monitor the Company's compensation program in order to maintain the proper balance between cash compensation and equity-based incentives and may consider further revisions in the future, although equity-based compensation will remain one of the principal components of executive compensation.

# **Base Salary**

The Compensation Committee reviews each executive officer's salary annually. In determining the appropriate salary levels, the Committee considers the executive officer's level and scope of responsibility, prior experience and accomplishments, as well as competitive market data on salary levels. The Compensation Committee annually reviews and approves the compensation of Mr. Case, the Company's President and Chief Executive Officer. Mr. Case's compensation is determined in a manner consistent with the practices used in determining the compensation of other executive officers of the Company.

# **Stock Options**

The Committee believes that stock options provide incentives to executive officers by giving them a strong economic interest in maximizing stock price appreciation, thereby better aligning their interests with the Company's stockholders. Given the Company's emphasis on equity-based incentive compensation and the fact the Company has not paid performance bonuses or any other annual cash incentives based upon performance, each executive officer's total compensation is highly dependent on the Company's stock performance. The executive officers participate in a stock option plan under which all full-time employees have historically received stock options. The Company believes that its stock option program is very important in enabling the Company to attract and retain the highest quality executive officers.

The Compensation Committee is responsible for administering the Company's stock option plans, including stock option grants to executive officers and certain other stock option grants. Option exercise prices are set at not less than 100% of fair market value on the date of grant. Thus, the value of the

stockholders' investment in the Company must appreciate before an optionee receives any financial benefit from the option. Options are generally granted for a term of ten years. Options granted to executive officers provide that they generally are not exercisable until one year after the date of grant, at which time they become exercisable on a cumulative basis at a maximum annual rate of 25% of the total number of shares underlying the option grant.

In determining the size of the stock option grants, the Committee considers the officer's responsibilities, the expected future contribution of the officer to the Company's performance and the number of shares which continue to be subject to vesting under outstanding options. In addition, the Committee compares the level of equity incentives held by each officer with the other officers' equity positions and their position, experience and value to the Company.

In connection with its recent examination of the compensation program, the Compensation Committee has revised the program to reduce the number of stock options to be granted at various employment levels. The Committee believes this adjustment is consistent with the Company's significant recent growth, although equity-based compensation will remain a principal component of executive compensation.

Because the Compensation Committee believes that the Company's stock option plans have been very effective in attracting, retaining and motivating executives and employees of the Company over time and have proven to be an important component of the overall compensation program and because of the Company's rapid personnel growth both from internal hiring and through acquisitions, the Committee recommended in January 1995 and July 1995 amendments to increase by an aggregate of 8,000,000 shares the number of shares of Common Stock which may be granted under the 1992 Plan. These amendments were approved by the Board of Directors and recommended for stockholder approval.

# **Deductibility of Compensation Expenses**

As part of the Omnibus Budget Reconciliation Act of 1993, Section 162(m) of the Internal Revenue Code has been enacted, which prohibits a deduction by the Company for compensation paid to certain executive officers in excess of \$1 million, except to the extent such excess constitutes performance-based compensation. Stock option plans which meet certain criteria qualify as performance-based compensation and fall within an exception to the deduction limitation. At the Annual Meeting, the stockholders will be asked to approve an amendment to the 1992 Employee, Director and Consultant Stock Option Plan to add an annual limit on option grants to any individual so that such plan may qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code.

Alexander M. Haig, Jr.

Chairman, Compensation Committee

James G. Andress

Frank J. Caufield

William N. Melton

Scott C. Smith

# COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors and officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Directors, officers and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of the above-mentioned reports furnished to the Company and written representations regarding all reportable transactions, during the fiscal year ended June 30, 1995, all Section 16(a) filing requirements applicable to its Directors and officers and greater than ten percent beneficial owners were complied with on time.

# CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Tribune Company. In August 1991, the Company entered into a letter agreement (the "Agreement") with Tribune Company ("Tribune") by which the parties agreed to produce "local editions" of America Online. Pursuant to the Agreement, Tribune agreed to market America Online to its readers and viewers and produce and manage localized content to augment the package of services already offered to other subscribers of America Online in an effort to attract new subscribers to the America Online service. The Company agreed to develop software to provide localized services and manage certain aspects of the venture, including the maintenance of host computers and networks, customer support and billing and collections. The Agreement provides for exclusive co-marketing of customized local editions of America Online in Chicago and certain areas of Florida and that the parties shall negotiate in good faith on the possible extension of such efforts to other areas in which Tribune owns newspaper or broadcast properties. The Agreement provides for revenue sharing between the parties, including revenues derived from new subscribers, premium services, usage fees and advertising revenue, and it is a general objective of the Agreement that there will be an equal sharing of profits from all activities jointly undertaken. In May 1992, the parties launched "Chicago Online," the customized Chicago-area edition of America Online.

Apple. In December 1992, the Company entered into a seven year licensing and development agreement with Apple Computer, Inc. ("Apple"), renewable by Apple through 2004. Under the agreement, the Company granted to Apple a non-exclusive license to use the America Online services platform to provide Apple-branded online services, and agreed to provide development services to Apple on a fee basis. The agreement provides that the Company will receive certain product development funding and a royalty based on usage. The minimum royalty payment is \$15 million over a five year period after June 1994 and \$5 million per year thereafter, subject to reduction or elimination under certain circumstances. In the event of a termination of the agreement by Apple because of a change of control of the Company, defined in the agreement, Apple would be granted possession of a source code from and would remain a licensee of the Company for a period of time. As part of the agreement, the Company issued a warrant to Apple to purchase 2,000,000 shares of the Company's Common Stock at an exercise price of \$6.25 per share. In the event of a change of control of the Company, Apple is entitled to a cash payment from the Company equal to the difference between the exercise price and the maximum price for the Common Stock under such a transaction, for each unexercised warrant.

### Item 1

# **ELECTION OF DIRECTORS**

The Company's Restated Certificate of Incorporation and Restated By-Laws provide for a classified Board of Directors. The Board of Directors currently consists of eight members, classified into three classes as follows: James G. Andress and Frank J. Caufield constitute a class with a term which expires at the upcoming Meeting (the "Class II Directors"); Stephen M. Case, William N. Melton and Thomas J. Middelhoff constitute a class with a term ending in 1996 (the "Class III Directors"); and James V. Kimsey, Alexander M. Haig, Jr. and Scott C. Smith constitute a class with a term ending in 1997 (the "Class I Directors"). At each annual meeting of shareholders, directors are elected for a full term of three years to succeed those directors whose terms are expiring.

At the Annual Meeting, three Class II Directors will be elected to hold office for a term of three years and until their successors have been duly elected and qualified. Background information appears below for each of the Board of Directors nominees for election as Class II Directors. Although the Company does not anticipate that any of the persons named below will be unwilling or unable to stand for election, in the event of such an occurrence, proxies may be voted for a substitute designated by the Board of Directors.

Name Name	Age	Business Experience
Frank J. Caufield A	18 <b>"54</b> 99" 18 - 18 - 18 - 19 20 - 1881	Mr. Caufield has been a Director of the Company since 1991. He has held the position of general partner of Kleiner, Perkins, Caufield & Byers, a venture capital partnership, since 1978. He is a director of Quickturn Design Systems.
Robert Ja Frankenberg (1) 100 miles (1) 100	A 47 mg construction of the construction of th	Frankenberg served as Vice President/General Manager, Personal Information Products Group of Hewlett-Packard Company from April 1991 to April 1994. Mr. Frankenberg previously served as Vice President/General Manager, Information Networks and Cooperative Computing Groups of Hewlett-Packard Company from November 1989 to April 1991. Mr. Frankenberg
Robert W. Pittman	6: <b>41</b> - 1:	Effective November 1, 1995, Mr. Pittman will become Managing Partner and Chief Executive Officer of Century 21 Real Estate. Mr. Pittman had previously been President and Chief Executive Officer of Time Warner Enterprises since 1990, and Chairman and Chief Executive Officer of Six Flags Entertainment since 1991

Unless authority to vote for any of the nominees named above is withheld, the shares represented by the enclosed proxy will be voted FOR the election as Directors of such nominees.

# Vote Docar - permotina and the energy of the and the

A plurality of the votes cast at the Meeting is required to elect each nominee as a Director.

THE BOARD OF DIRECTORS RECOMMENDS THE ELECTION OF FRANK J. CAUFIELD, ROBERT J. FRANKENBERG AND ROBERT W. PITTMAN AS DIRECTORS, AND PROXIES SOLICITED BY THE BOARD WILL BE VOTED IN FAVOR THEREOF UNLESS A STOCKHOLDER HAS INDICATED OTHERWISE ON THE PROXY.

#### Item 2

# INCREASE IN THE AGGREGATE NUMBER OF SHARES FOR WHICH STOCK OPTIONS MAY BE GRANTED UNDER THE COMPANY'S 1992 EMPLOYEE, DIRECTOR, AND CONSULTANT STOCK OPTION PLAN and the second of the second o

The Company's Board of Directors and the Stockholders approved the 1992 Employee, Director and Consultant Stock Option Plan (the "1992 Plan"). A total of 1,040,000 shares of Common Stock were initially reserved for issuance under the 1992 Plan. By the terms of the 1992 Plan, the 1992 Plan may be amended by the Board of Directors or the Compensation Committee of the Board of Directors (the "Compensation Committee"), provided that any amendment approved by the Board of Directors or the Compensation Committee which is of a scope that requires Stockholder approval in order to ensure favorable federal income tax treatment for any incentive stock options under Code Section 422 or requires Stockholder approval in order to ensure the qualification of the 1992 Plan under Rule 16b-3 under the Securities Exchange Act of 1934 shall be recommended to the Stockholders for their approval.

In October 1993, the Stockholders approved an amendment to the 1992 Plan to increase by 3,000,000 shares the aggregate number of shares of Common Stock for which stock options may be granted under the 1992 Plan. In October 1994, the Stockholders approved an amendment to the 1992 Plan to increase by 6,000,000 shares the aggregate number of shares of Common Stock for which stock options may be granted under the 1992 Plan.

In January and July 1995, the Board of Directors voted to approve amendments to the 1992 Plan to increase by an aggregate of 8,000,000 shares the total number of shares of Common Stock for which stock options may be granted under the 1992 Plan. The Board believes that the increase is supported by the need to give the Company maximum ability to attract, retain and motivate employees, directors and consultants. All employees and consultants of the Company and the members of the Board of Directors are eligible to participate in the 1992 Plan, and the Company has historically granted stock options to all of its full-time employees. Grants of stock options to employees are a key element of the Company's compensation program inasmuch as the Company has not paid cash bonuses or other cash incentives. In addition, the number of employees of the Company has rapidly increased since October 1994, both from internal hiring and through acquisitions, thereby contributing to the need for the increase in shares subject to the 1992 Plan. Not only has the growth of the Company resulted in an increase in the number of employees, but also in the responsibilities of management. Given the Company's recent rapid growth in both personnel and stock value, the Board has undertaken a careful review if the compensation program with the result that revisions have been made to reduce the number of stock options to be granted at various employment levels. See "Report of Compensation Committee on Executive Compensation." As of June 30, 1995, 15,284,756 options to purchase shares of Common Stock had been granted under the 1992 Plan.

These amendments are being submitted for Stockholder approval at the Meeting to insure continued qualification of the 1992 Plan under Rule 16b-3 under the Securities Exchange Act of 1934.

# Material Features of the 1992 Plan

The purpose of the 1992 Plan is to attract, retain and motivate employees, directors and consultants through the issuance of stock options and to encourage ownership of shares of Common Stock by all employees, directors and consultants of the Company. The 1992 Plan is administered by the Compensation Committee. Subject to the provisions of the 1992 Plan, the Compensation Committee determines the persons to whom options will be granted, the number of shares to be covered by each option and the terms and conditions upon which an option may be granted, and has the authority to administer the provisions of the 1992 Plan. All full-time employees, directors and consultants of the Company and its affiliates are eligible to participate in the 1992 Plan. And the second and the s

Options granted under the 1992 Plan may be either (i) options intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or (ii) non-qualified stock options. Incentive stock options may be granted under the 1992 Plan to employees of the Company and its affiliates. Non-qualified stock options may be granted to consultants, directors and employees of the Company and its affiliates. The 1992 Plan provides for an annual grant on November 1 to each non-employee director of an option, which vests in one year, to purchase 10,000 shares of Common Stock at an exercise price equal to the fair market value of the Common Stock on such grant date.

The aggregate fair market value (determined at the time of grant) of shares issuable pursuant to incentive stock options which become exercisable in any calendar year under any incentive stock option plan of the Company by an employee may not exceed \$100,000. Incentive stock options granted under the 1992 Plan may not be granted at a price less than the fair market value of the Common Stock on the date of grant (or 110% of fair market value in the case of employees holding 10% or more of the voting stock of the Company). Non-qualified stock options granted under the 1992 Plan may not be granted at an exercise price less than 50% of the fair market value of a share of Common Stock on the date of grant. No options have been granted at such exercise price, however. Incentive stock options granted under the 1992 Plan expire not more than ten years from the date of grant, or not more than five years from the date of grant in the case of incentive stock options granted to an employee holding 10% or more of the voting stock of the Company. An option granted under the 1992 Plan is exercisable, during the optionholder's lifetime, only by the optionholder and is not transferable by him or her except by will or by the laws of descent and distribution.

An incentive stock option granted under the 1992 Plan may, at the Compensation Committee's discretion, be exercised after the termination of the optionholder's employment with the Company (other than by reason of death, disability or termination for cause as defined in the 1992 Plan) to the extent exercisable on the date of such termination, for up to 90 days following such termination, provided that such incentive stock option has not expired on the date of such exercise. In granting any non-qualified stock option, the Compensation Committee may specify that such non-qualified stock option shall be subject to such termination or cancellation provisions as the Compensation Committee may specify. In the event of the optionholder's death, both incentive stock options and non-qualified stock options may be exercised, to the extent exercisable on the date of death, by the optionholder's survivors at any time prior to the earlier of the option's specified expiration date or one year from the date of the optionholder's death. Most of the outstanding option agreements issued under the 1992 Plan provide for acceleration of the vesting of the options granted upon or in connection with a change in control (as defined in such option agreements) of the Company, such that such options become exercisable either (i) immediately, (ii) one year following a change in control, subject to certain conditions, or (iii) upon the occurrence of a specified event following a change in control, such as (a) the optionholder failing to be vested with power and authority analogous to the optionholder's title and/or office prior to the change in control, (b) the optionholder's loss of any significant duties attending such office, (c) a reduction in the optionholder's base compensation or (d) termination of the optionholder's employment without cause.

If the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of an option granted under the 1992 Plan shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend. If the Company is to be consolidated with or acquired by another entity in a merger, sale of all or substantially all of the Company's assets or otherwise (an "Acquisition"), the Compensation Committee or the Board of Directors of any entity assuming the obligations of the Company hereunder (the "Successor Board"), shall, as to outstanding options, either (i) make appropriate provision for the continuation of such options by substituting on an equitable basis for the shares then subject to such options the consideration payable with respect to the outstanding shares of Common Stock in connection with the Acquisition or securities of any successor or acquiring entity; or (ii) upon written notice to the participants, provide that all options must be exercised, to the extent then exercisable,

within a specified number of days of the date of such notice, at the end of which period the options shall terminate; or (iii) terminate all options in exchange for a cash payment equal to the excess of the fair market value of the shares subject to such option (to the extent then exercisable) over the exercise price thereof. In the event of a recapitalization or reorganization of the Company (other than an Acquisition) pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, an optionholder upon exercising an option, shall be entitled to receive for the purchase price paid upon such exercise the securities he or she would have received if he or she had exercised such option prior to such recapitalization or reorganization.

The 1992 Plan may be amended by the Stockholders of the Company. The 1992 Plan may also be amended by the Board of Directors or the Compensation Committee, provided that any amendment approved by the Board of Directors or the Compensation Committee which is of a scope that requires Stockholder approval in order to ensure favorable federal income tax treatment for any incentive stock options under Code Section 422 or requires Stockholder approval in order to ensure the qualification of the Plan under Rule 16b-3 under the Securities Exchange Act of 1934, shall be recommended to the Stockholders for their approval.

As of June 30, 1995, an aggregate of 619,442 shares of Common Stock had been issued upon the exercise of options or are issuable upon the exercise of options outstanding under the 1992 Plan. On September 14, 1995, the closing market price per share of the Company's Common Stock was \$67.25, as reported by the Nasdaq Stock Market.

### **Federal Income Tax Considerations**

The following is a description of certain U.S. Federal income tax consequences of the issuance and exercise of options under each of the Plans:

Incentive Stock Options. An incentive stock option does not result in taxable income to the optionee or deduction to the Company at the time it is granted or exercised, provided that no disposition is made by the optionee of the shares acquired pursuant to the option within two years after the date of granting of the option nor within one year after the date of transfer of shares to him (the "ISO holding period"). However, the difference between the fair market value of the stock on the date of exercise and the option price therefor will be an item of tax preference includible in "alternative minimum taxable income." Upon disposition of the stock after the expiration of the ISO holding period, the optionee will generally recognize long term capital gain or loss based on the difference between the disposition proceeds and the option price paid for the stock. If the stock is disposed of prior to the expiration of the ISO holding period, the optionee generally will recognize taxable compensation, and the Company will have a corresponding deduction, in the year of the disposition equal to the excess of the fair market value of the stock on the date of exercise of the option over the option price. Any additional gain realized on the disposition will normally constitute capital gain. If the amount realized upon such a disqualifying disposition is less than fair market value of the stock on the date of exercise, the amount of compensation income will be limited to the excess of the amount realized over the optionee's adjusted basis in the stock.

Non-Qualified Stock Options. The grant of a non-qualified option will not result in taxable income to the optionee or deduction to the Company at the time of grant. The optionee will recognize taxable compensation, and the Company will have a corresponding deduction, at the time of exercise in the amount of the excess of the then fair market value of the shares acquired over the option price. Upon disposition of the shares, the optionee will generally realize capital gain or loss, and his basis for determining gain or loss will be the sum of the option price paid for the stock plus the amount of compensation income recognized on exercise of the option.

**Deductibility of Compensation.** Subject to shareholder approval, the 1992 Plan will qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code, so as to allow the Company to deduct all related compensation expenses. Reference is made to the Report of the Compensation Committee, under "Deductibility of Compensation Expenses," above.

# Vote

Under Rule 16b-3 of the Securities Exchange Act of 1934, the affirmative vote of a majority of the shares present or represented and entitled to vote at the Meeting is required to approve the proposed amendment to the 1992 Plan. Under Delaware law, with respect to the tabulation of votes, abstentions will be treated as votes against the proposal, while broker non-votes will have no effect on the vote.

THE BOARD OF DIRECTORS RECOMMENDS APPROVAL OF THE ADOPTION OF AN AMENDMENT TO THE 1992 PLAN TO INCREASE BY 8,000,000 SHARES THE AGGREGATE NUMBER OF SHARES FOR WHICH STOCK OPTIONS MAY BE GRANTED UNDER THE 1992 PLAN, AND PROXIES SOLICITED BY THE BOARD WILL BE VOTED IN FAVOR OF SUCH AMENDMENT UNLESS A STOCKHOLDER HAS INDICATED OTHERWISE ON THE PROXY.

#### Item 3

# APPROVAL OF AMENDMENT TO THE COMPANY'S RESTATED ARTICLES OF INCORPORATION TO INCREASE AUTHORIZED SHARES OF COMMON STOCK

The Company's Restated Articles of Incorporation (the "Articles of Incorporation") authorize the issuance of 100,000,000 shares of Common Stock, \$.01 par value, and 5,000,000 shares of Preferred Stock, \$.01 par value. On July 31, 1995, the Board of Directors of the Company approved an amendment to the Articles of Incorporation to increase the authorized number of shares of Common Stock from 100,000,000 to 300,000,000 and to submit the proposed amendment to the Stockholders at the 1995 Annual Meeting.

# Purpose and Effect of the Amendment

The principal purpose and effect of the proposed amendment to the Company's Articles of Incorporation will be to authorize additional shares of Common Stock which will be available in the event the Board of Directors determines that it is in the best interest of the Company and is necessary and appropriate to effect one or more stock splits, to raise additional capital through the sale of securities, or to acquire another company or business or additional assets.

The Company currently has 100,000,000 authorized shares of Common Stock. As of September 11, 1995, 37,845,827 shares were issued and outstanding. Of the remaining authorized but unissued shares, 3,800,000 shares have been reserved in connection with warrants held by the Apple Computer, Inc. and U.S. Sprint. Additionally, approximately 289,115 shares are reserved pursuant to the Employee Stock Purchase Plan and approximately 19,978,605 shares are reserved pursuant to the Company's stock option plans, including all plans assumed in connection with the Company's various acquisitions. The Board of Directors voted to amend the 1992 Plan to increase the number of shares of Common Stock subject thereto by an aggregate of 8,000,000 shares, which thereby further reduces the number of shares of Common Stock available for issuance.

The Company has filed a Registration Statement on Form S-3 with respect to the public offering of an additional approximately 1,900,000 shares, plus an option on the part of the underwriters to purchase up to an additional 525,000 shares. In addition, the Company has entered into an agreement to acquire Ubique Ltd, an Israeli company, for consideration that includes approximately 216,214 shares. Except as set forth herein, the Company currently has no arrangements or understandings for the issuance of additional shares of Common Stock, although the kinds of opportunities described above could arise at any time. If the Board of Directors deems it to be in the best interest of the Company and the stockholders to issue additional shares of Common Stock in the future, the Board of Directors generally will not seek further authorization by vote of the stockholders, unless such authorization is otherwise required by law or regulations.

The increase in the authorized number of shares of Common Stock could have an anti-takeover effect. If the Company's Board of Directors desired to issue additional shares in the future, such issuance could dilute the voting power of a person seeking control of the Company, thereby deterring or rendering more difficult a merger, tender offer, proxy contest or an extraordinary corporate transaction opposed by the Company.

### Vote

The affirmative vote of a majority of the outstanding Common Stock entitled to vote at the Meeting will be required to approve the amendment to the Company's Articles of Incorporation increasing the number of authorized shares of Common Stock from 100,000,000 to 300,000,000. Under Delaware law, with respect to the tabulation of votes, abstentions will be treated as votes against the proposal, while broker non-votes will have no effect on the vote.

THE BOARD OF DIRECTORS RECOMMENDS THE APPROVAL OF THE AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION TO INCREASE THE AUTHORIZED SHARES OF COMMON STOCK TO 300,000,000.

## Item 4

# INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors has appointed Ernst & Young LLP, independent public accountants, to audit the financial statements of the Company for the fiscal year ending June 30, 1996. The Board proposes that the Stockholders ratify this appointment. Ernst & Young LLP audited the Company's financial statements for the fiscal year ended June 30, 1995. The Company expects that representatives of Ernst & Young LLP will be present at the Meeting, with the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

In the event that ratification of the appointment of Ernst & Young LLP as the independent public accountants for the Company is not obtained at the Meeting, the Board of Directors will reconsider its appointment.

A majority of the shares voted affirmatively or negatively at the Meeting is required to ratify the appointment of the independent public accountants.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE TO APPROVE THE RATIFICATION OF THE APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS, AND PROXIES SOLICITED BY THE BOARD WILL BE VOTED IN FAVOR THEREOF UNLESS A STOCKHOLDER HAS INDICATED OTHERWISE ON THE PROXY.

# **RIGHTS AGREEMENT**

Pursuant to the terms of the Rights Agreement dated as of April 23, 1993 entered into by the Company and Security Trust Company, N.A., the Company hereby notifies the registered holders of the Rights Certificates, as defined in the Rights Agreement, that Chemical Bank has resigned as Rights Agent and that the Company has appointed The First National Bank of Boston as successor Rights Agent, effective May 15, 1995.

#### **OTHER MATTERS**

The Board of Directors knows of no other business which will be presented to the Meeting. If any other business is properly brought before the Meeting, it is intended that proxies in the enclosed form will be voted in respect thereof in accordance with the judgment of the persons voting the proxies.

### STOCKHOLDER PROPOSALS

To be considered for inclusion in the Company's proxy materials relating to the 1996 Annual Meeting of Stockholders, Stockholder proposals must be received, marked for the attention of: Secretary, America Online, Inc., 8619 Westwood Center Drive, Vienna, Virginia 22182, no later than September 1, 1996.

WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING, YOU ARE URGED TO FILL OUT, SIGN, DATE AND RETURN THE ENCLOSED PROXY AT YOUR EARLIEST CONVENIENCE.

By order of the Board of Directors:

allen M. Kish

Ellen M. Kirsh

Secretary

Vienna, Virginia September 29, 1995